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Washington Policy Flash Note
Quick Thoughts on DOJ's For-Profit Prison Memo

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On August 18 the *Washington Post* reported on a Department of Justice (DOJ) memo directing the Bureau of Prisons (BOP) to begin the "process of reducing – and ultimately ending" the use of privately operated prisons. This announcement has caused dramatic declines in the share prices of Geo Group (GEO-NC) and Correction Corp (CXW-NC), the two publicly-traded for-profit prisons. **This policy shift is undeniably negative for the publicly-traded for-profit prison companies but it is far from a death sentence.** We include below our answers to client questions in the wake of this announcement.

What Does the Memo Say? The memo states that Bureau of Prisons (BOP) "should" review its contracts with private prisons at the end of each term and "either decline to renew that contract or substantially reduce its scope in a manner consistent with law and the overall decline of the Bureau's inmate population." While this is clearly negative directionally, the memo appears to provide BOP with sufficient latitude to renew contracts with for-profit prisons, albeit with a reduced scope.

Who Does This Cover? The memo only explicitly covers the Bureau of Prisons (BOP) which is housed under the Department of Justice (DOJ). The memo notes that halfway houses and other rehabilitation centers are not covered by this policy shift. At the moment, it is uncertain whether other federal contracts including the U.S. Marshals (USM) and the U.S. Immigration and Customs Enforcement (ICE) are at risk. Notably, the USM is housed under the DOJ while ICE is part of the Department of Homeland Security (DHS). Our sense is that the ICE contracts are comparatively safer given the political climate but DHS has yet to officially comment.

Why Now? For-profit prisons have been facing headline pressure throughout 2016 due to legislative efforts to enact criminal justice reform and comments from the campaign trail. Our sense is that the August 9 report from the DOJ's Inspector General finding that contract prisons underperformed in a number of different categories provided the political cover necessary for this memo.

How Would the Presidential Candidates Handle This? While we admittedly have little insight into how a Trump DOJ would handle for-profit prisons, our sense is that a reversal of this policy would be likely. We are far more confident that a Clinton DOJ would support this memo. As a reminder, on October 20 the Clinton campaign tweeted: "We need to end private prisons. Protecting public safety...should never be outsourced or left to unaccountable corporations."

What Are the Top Questions Right Now? The top questions at this point are: (1) will other federal contracts with USM and ICE ultimately be impacted by this policy shift; (2) how will the for-profit industry flex its muscle in D.C. and will that impact the conversation; (3) does this impact the next round of criminal justice reform talks on Capitol Hill; and (4) is it fair to expect states to move in this direction as well?

What is Our Take? This policy shift is clearly a negative for the publicly-traded for-profit prison companies but it is far from a death sentence. Our sense is that infrastructure limitation, political dynamics, and budgetary constraints will shield state-level contracts. Furthermore, the cash flow being generated by existing contracts appears safe as the memo directs review at the end of term. Finally, the language in this memo signals that termination is not the only option as the BOP appears to have sufficient latitude to renew expiring contracts so long as the scope is "substantially reduce[d]."

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